Consumers Power Through

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October's retail sales data showed continued strength in consumer spending. The headline beat forecasts for a +0.3% gain with an increase of +0.4% that was driven by a +1.6% jump in auto sales. The solid October showing was bolstered by an upward revision to September's previously reported +0.4% increase which was doubled to +0.8%. Looking at the year-over-year data reveals the largest annual gain in three months at +2.9%. Stripping out sales at auto dealers and gas stations left October sales up a more pedestrian +0.1%, well shy of the +0.3% forecast, but this measure still posted a +3.8% annual gain.

The retail sales data is notoriously difficult to interpret. Sales are not adjusted for inflation so changes in sales often reflect changes in price as much or more than changes in sales volume. This is most readily seen in sales at gas stations. The sheer number of data points in the report adds to the confusion. And since this report largely focuses on purchases of goods, leaving off most services categories, it only captures a relatively narrow share of overall consumer spending.

Cutting through some of the fog it is notable that sales increased in eight of the 13 categories. The retail sales control group, which is used in GDP calculations and excludes food services, autos dealers, building materials stores and gas stations, fell -0.1% in October, but that followed a +1.2% rise in September so some moderation was expected. The year-over-year control group reading came in at +3.6%, down from +4.1% in September. However, over the last three months this measure is rising at a +4.6% annualized rate, reflecting a robust pace of spending as the fourth quarter begins.

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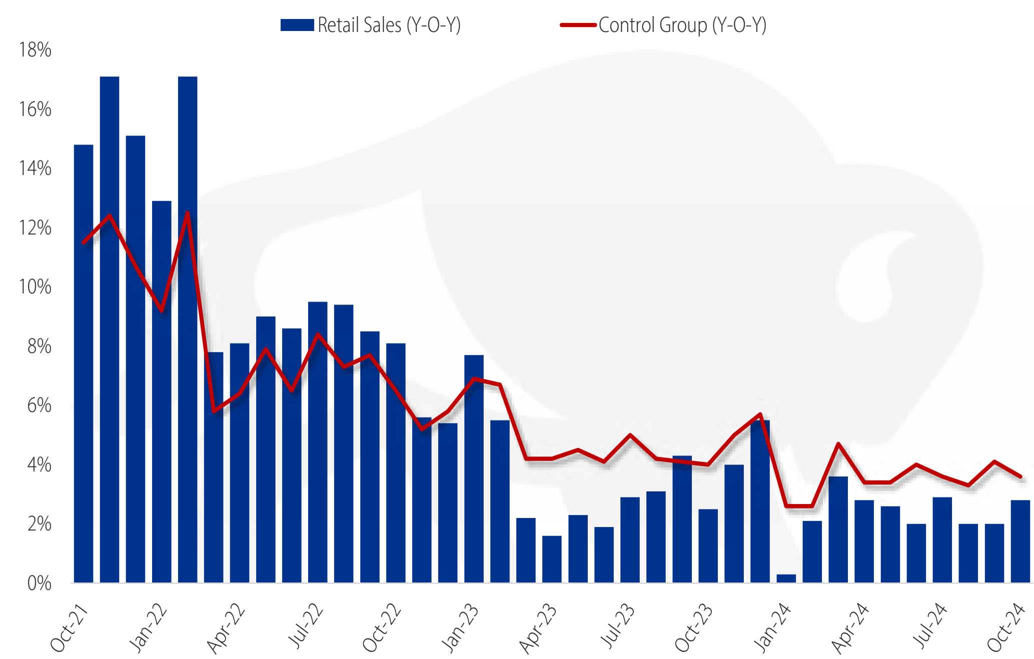
Retail Sales (Year-over-Year Percent Change)



Source: US Census Bureau

The bottom line is that consumers continue to spend at a healthy clip. Today's data adds to the pile of recent evidence that the economy is holding up well. Not booming, but certainly not collapsing either.

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In other news, during a speech in Dallas yesterday, Fed Chair Powell said, "The economy is not sending any signals that we need to be in a hurry to lower rates." While this is nothing new, the more he says it the more markets hear it. Bond markets have pushed yields a bit higher this morning as the combination of strong data, Powell's comments, and expectations around the President-Elect's proposed policies further temper expectations for rate cuts. Fed funds futures now place the odds of a December rate cut at less than 60%, and through December 2025 a total of just 75 bps of cuts are priced in.

Market Indications as of 9:28 A.M. Central Time

DOW	Down -259 to 43,492 (HIGH: 44,293)
NASDAQ	Down -339 to 18,769 (HIGH: 19,299)
S&P 500	Down -63 to 5,887 (HIGH: 6,001)
1-Yr T-bill	current yield 4.36%; opening yield 4.35%
2-Yr T-note	current yield 4.34%; opening yield 4.35%
3-Yr T-note	current yield 4.31%; opening yield 4.32%
5-Yr T-note	current yield 4.35%; opening yield 4.33%
10-Yr T-note	current yield 4.48%; opening yield 4.45%
30-Yr T-bond	current yield 4.64%; opening yield 4.60%